First Capital
A Janashakthi Group Company

HAYLEYS FABRIC PLC [MGT.N0000]

MAINTAIN BUY

"STITCHING TOGETHER THE EARLY SIGNS OF RECOVERY..."

Fair Value: FY27E - LKR 37.0 [+28%]
Total Return with DPS: FY27E - 31% [AER 62%]

Fair Value: FY28E - LKR 46.0[+59%]
Total Return with DPS: FY28E - 63% [AER 37%]

MGT kicked off 1QFY27 with earnings of LKR 168.6Mn, which reflects a 57.2% decline on a YoY basis (down 60.9% in USD terms to USD 0.5Mn). The visible bottleneck that has hampered earnings growth appears to have stemmed from continued pressure on operating margins, as the improvement in topline failed to translate into gross profit growth amidst elevated operating expenses and Sri Lanka recording subdued apparel export volumes. Revenue grew 4.0%YoY to LKR 10.9Bn, while gross profit declined marginally by 3.4%YoY to LKR 1.8Bn. Meanwhile, administrative expenses rose 23.5%YoY and distribution expenses increased 50.2%YoY, resulting in EBIT declining 42.0%YoY to LKR 459.1Mn. Nevertheless, the sequential picture points towards an improving earnings trajectory, with revenue rising 11.0%QoQ and gross profit increasing 15.1%QoQ, supporting a 22.8%QoQ recovery in EBIT. Lower net finance costs, which fell 74.3%YoY and 72.9%QoQ, provided further support, resulting in PBT rising 117.6%QoQ to LKR 408.5Mn. Consequently, PAT recovered 70.8%QoQ, although remaining 57.2% below the corresponding period last year. Overall, while 1QFY27 earnings remain subdued on a YoY basis, the strong sequential recovery in topline, gross profit and operating earnings provides early evidence that the earnings trough may be passing, with the sustainability of the recovery likely to depend on improving margins and the translation of healthy apparel demand into stronger order flows for MGT. This justifies our expectation of MGT's bottom line recovery from the current subdued levels, reaching LKR 1.4Bn and LKR 2.0Bn in FY27E and FY28E, respectively. FCR derives target prices of LKR 37.0 for FY27E and LKR 46.0 for FY28E, implying AER's of 62.1% and 37.0%, respectively. Thereby, we maintain our BUY recommendation at the current price of LKR 29.0.

LKR (Mn)	1QFY26	1QFY27	YoY	FY25	FY26	YoY
Earnings (LKR 'Mn)						
Revenue	10,473	10,895	+4%	44,129	38,265	-13%
Gross profit	1,835	1,772	-3%	7,824	5,699	-27%
EBIT	791	459	-42%	4,238	1,784	-58%
PBT	594	409	-31%	3,116	1,045	-66%
Net Profit	393	169	-57%	2,126	642	-70%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	11,772	13,466	+14%	11,346	12,430	+10%
Borrowings	11,718	11,840	+1%	11,839	11,142	-6%
NAVPS	28.3	32.4	+14%	27.3	29.9	+10%

Topline remains resilient, but weak earnings conversion has pressured recent margins, however, two consecutive quarters of expansion signal an encouraging turnaround

MGT reported earnings of LKR 168.6Mn for 1QFY27, reflecting a 57.2%YoY decline, despite revenue growing 4.0%YoY to LKR 10.9Bn. The disconnect between topline growth and earnings remains the key bottleneck, with gross profit declining 3.4%YoY to LKR 1.8Bn as margins remained under pressure. This was further compounded by a 23.5%YoY increase in administrative expenses and a 50.2%YoY rise in distribution expenses, resulting in EBIT declining 42.0%YoY to LKR 459.1Mn. Nevertheless, the 11.0%QoQ growth in revenue and 15.1%QoQ recovery in gross profit point towards improving operating momentum. MGT's margins contracted significantly on a YoY basis, with GP margin declining by 87bps, EBIT margin by 334bps and NP margin by 221bps, highlighting continued cost side pressures that have weighed on overall profitability. Nevertheless, the QoQ trend paints a more positive picture, with GP, EBIT and NP margins improving by 58bps, 40bps and 54bps, respectively, marking the 2nd consecutive quarter of margin expansion which signals early signs of a gradual recovery in operating leverage.

Margin recovery remains the key catalyst as demand conditions improve

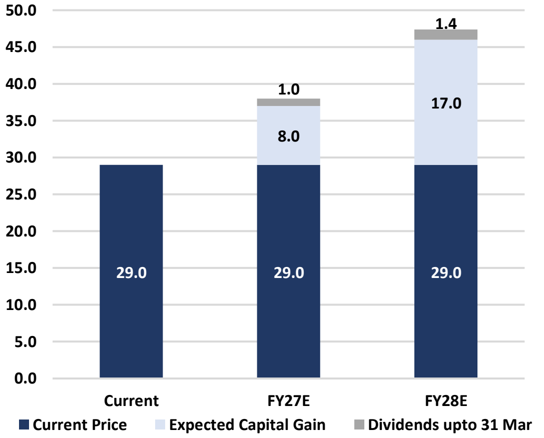
MGT's focus on innovation-led, value-added fabrics through the INNO brand and its premium pricing strategy is expected to support margins above peers as operating conditions improve from 2QFY27E. We expect gross margins to expand by 60bps and 20bps in FY27E and FY28E, respectively, while operating margins are expected to strengthen by a further 182bps and 96bps, supported by innovation across its existing portfolio, improving capacity utilization and operating leverage.

Softer global demand weighs on near-term orders, while trade and tariff reforms strengthen the recovery outlook

Sri Lanka's textile and apparel export volumes contracted 6.0%YoY during 1H2026, with exports to the U.S., E.U. and U.K. declining 2.2%YoY, 8.3%YoY and 12.1%YoY, respectively (during Jan-Jun 2026), reflecting softer global demand and an uncertain external environment. However, the outlook is supported by improving trade access, particularly following the UK's liberalized Developing Countries Trading Scheme (DCTS), effective from Jan-2026. The revised rules allow Sri Lankan apparel manufacturers to source up to 100% of raw materials globally while retaining zero tariff access to the UK, improving sourcing flexibility and cost competitiveness. For MGT, the softer U.S. demand remains a near-term drag, although the decline has been comparatively milder than in other key markets. As global brands move toward inventory replenishment, we expect order flows to improve progressively. With U.S. reciprocal tariffs becoming more uniform, competition is shifting toward country-specific strengths, which allows MGT to capitalize on Sri Lanka's reputation as a sustainable sourcing destination and quality driven leadership. In addition, government initiatives aimed at strengthening export competitiveness, including expanding FTAs and export quotas, improving trade facilitation through the National Single Window, and supporting investment into export-oriented manufacturing, could provide further support to the sector.

Structural margin strength and global brand positioning propel earnings growth, resulting in an AER of 39.1% for FY28E

FCR maintains its BUY stance on MGT, supported by its structurally superior margin profile due to its product portfolio, innovation, strong ESG positioning, new client acquisitions and relationships with global brands, which provide long-term earnings visibility. This justifies our expectation of MGT's bottom line recovery from the current subdued levels, reaching LKR 1.4Bn and LKR 2.0Bn in FY27E and FY28E, respectively. FCR derives target prices of LKR 37.0 for FY27E and LKR 46.0 for FY28E, implying AER's of 62.1% and 37.0%, respectively.



FIRST CAPITAL RESEARCH

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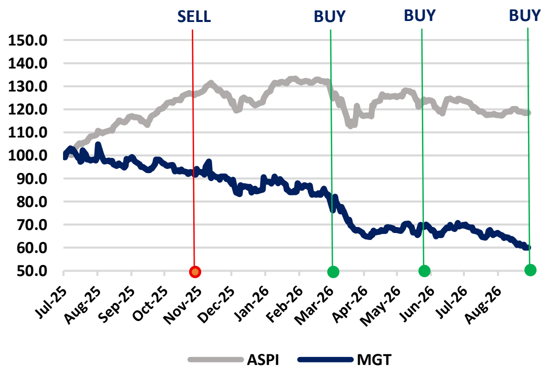
Price movement of MGT vs ASPI (Indexed and Rebased to 100)



Source: CSE

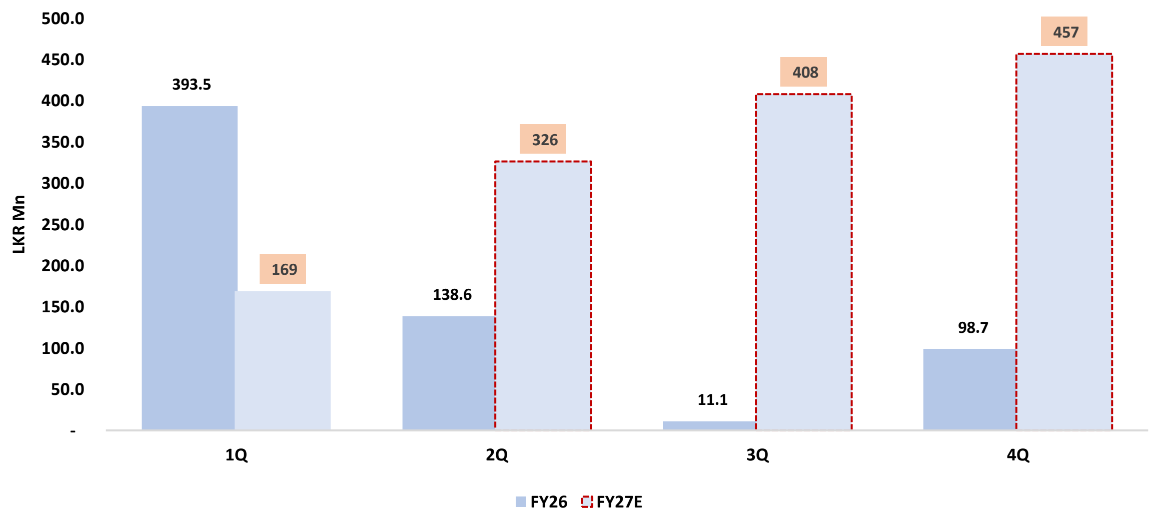
Minimum Return for BUY:
Buy Below FY28E - [AER of 18% with DPS]: LKR 36.5
MGT categorized as 'Grade B' counter

Disclosure on Shareholding:
First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of MGT during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation
Downside risks
- Exchange rate risk (appreciation may lead to LKR topline reduction and depreciation may lead to increase of raw material costs)
- Risk of export market inflation levels
- Greater than expected global economic slowdown
- Increasing crude oil and yarn prices may lead to margin contraction
- Customer concentration risk due to heavy reliance on U.S. market

Upside risks
- Exchange rate risk (appreciation may lead to reduction of raw material costs and depreciation may lead to LKR topline increase)
- Operating leverage from improved capacity utilization levels

Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E - O	FY27E - R	% Change	FY28E - O	FY28E - R	% Change
Earnings Estimate						
Revenue	42,417	42,417	0.0%	48,347	48,347	0.0%
Gross profit	6,405	6,405	0.0%	7,397	7,397	0.0%
EBIT	2,613	2,613	0.0%	3,448	3,448	0.0%
Profit before tax	1,943	1,943	0.0%	2,779	2,779	0.0%
Net Profit	1,360	1,360	0.0%	1,945	1,945	0.0%
EPS	3.3	3.3		4.7	4.7	
Growth YoY	*111.9%*	*111.9%*		*43.1%*	*43.1%*	
Balance Sheet Estimate						
Shareholders' Equity	13,382	13,382	0.0%	14,744	14,744	0.0%
Borrowings	12,548	12,548	0.0%	12,539	12,539	0.0%
NAVPS	**29.9**	**29.9**		**32.2**	**32.2**	
Ratio Estimate						
ROE (%)	***10.2%***	***10.2%***		***13.2%***	***13.2%***	
PER (x)	**9.4**	**9.8**		**6.6**	**6.8**	
PBV (x)	**1.0**	**1.0**		**0.9**	**0.9**	

Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Revenue	60,949	50,253	44,129	38,265	42,417	48,347	52,737
Gross Profit	7,826	9,440	7,824	5,699	6,405	7,397	8,227
EBIT	4,199	5,780	4,238	1,784	2,613	3,448	3,986
Net Profit	**414**	**2,544**	**2,126**	**642**	**1,360**	**1,945**	**2,323**
Adjusted EPS (LKR)	1.0	6.1	5.1	1.5	3.3	4.7	5.6
YoY Growth (%)	-84.6%	513.9%	-16.4%	-69.8%	111.9%	43.1%	19.4%
Valuations							
PER (x)	*29.1x*	*4.7x*	*5.7x*	*18.8x*	*8.9x*	*6.2x*	*5.2x*
PBV (x)	*1.3x*	*1.2x*	*1.1x*	*1.0x*	*0.9x*	*0.8x*	*0.7x*
DY (%)	*8.6%*	*8.6%*	*6.4%*	*2.2%*	*3.4%*	*4.8%*	*5.8%*
NAVPS	*22.8*	*24.1*	*27.3*	*29.9*	*32.2*	*35.5*	*39.4*
DPS	*2.5*	*2.5*	*1.9*	*0.7*	*1.0*	*1.4*	*1.7*
Dividend Payout	*250.6%*	*40.8%*	*36.2%*	*42.1%*	*30.0%*	*30.0%*	*30.0%*

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Revenue	92.6%	-17.5%	-12.2%	-13.3%	10.8%	14.0%	9.1%
	Gross Profit	89.9%	20.6%	-17.1%	-27.1%	12.4%	15.5%	11.2%
	EBIT	139.1%	37.6%	-26.7%	-57.9%	46.5%	31.9%	15.6%
	Net Profit	-84.6%	513.9%	-16.4%	-69.8%	111.9%	43.1%	19.4%
Profitability	GP Margin	12.8%	18.8%	17.7%	14.9%	15.1%	15.3%	15.6%
	EBIT Margin	6.9%	11.5%	9.6%	4.7%	6.2%	7.1%	7.6%
	NP Margin	0.7%	5.1%	4.8%	1.7%	3.2%	4.0%	4.4%
	Return on Equity	4.4%	25.4%	18.7%	5.2%	10.2%	13.2%	14.2%
Liquidity	Current Ratio	1.0x	1.1x	1.1x	1.0x	1.1x	1.2x	1.2x
	Quick Ratio	0.4x	0.6x	0.5x	0.5x	0.5x	0.5x	0.5x
Activity	Inventory Days	84.6	83.0	93.6	94.3	81.4	81.4	81.4
	Accounts Payable Days	62.8	69.1	72.1	95.0	76.7	76.7	76.7
	Accounts Receivable Days	41.6	43.5	51.0	75.9	38.7	34.5	34.6
Gearing	Debt/Equity	1.5x	1.2x	1.0x	0.9x	0.6x	0.6x	0.5x
	Debt/Debt+Equity	0.6x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x
	Debt/Total assets	0.4x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x

Valuation Summary

Expected MGT Price	FY27E	FY28E
PER Based Target Price	32.7	46.8
DCF Based Target Price	39.8	44.9
Average Target Price	36.2	45.9
Target Price after Rounding Off	37.0	46.0

Return	FY27E	FY28E
Target Price	37.0	46.0
Current Price	29.0	29.0
Capital Gain (LKR)	8.0	17.0
Dividend upto 31 Mar (LKR)	1.0	1.4
Capital Gain %	28%	59%
Dividend Yield %	3%	5%
Total Return %	31%	63%
Annualized Return %	62%	37%

Discounted Cash flow Valuation

DCF Based Valuation	FY27E	FY28E
Enterprise Value	24,162	25,711
Debt (-)	(7,451)	(7,432)
Cash (+)	1,226	1,804
Retirement Benefit (-)	(1,419)	(1,419)
Total Value of Equity	16,517	18,663
No. of Shares (Mn)	415	415
Target Price	39.8	44.9

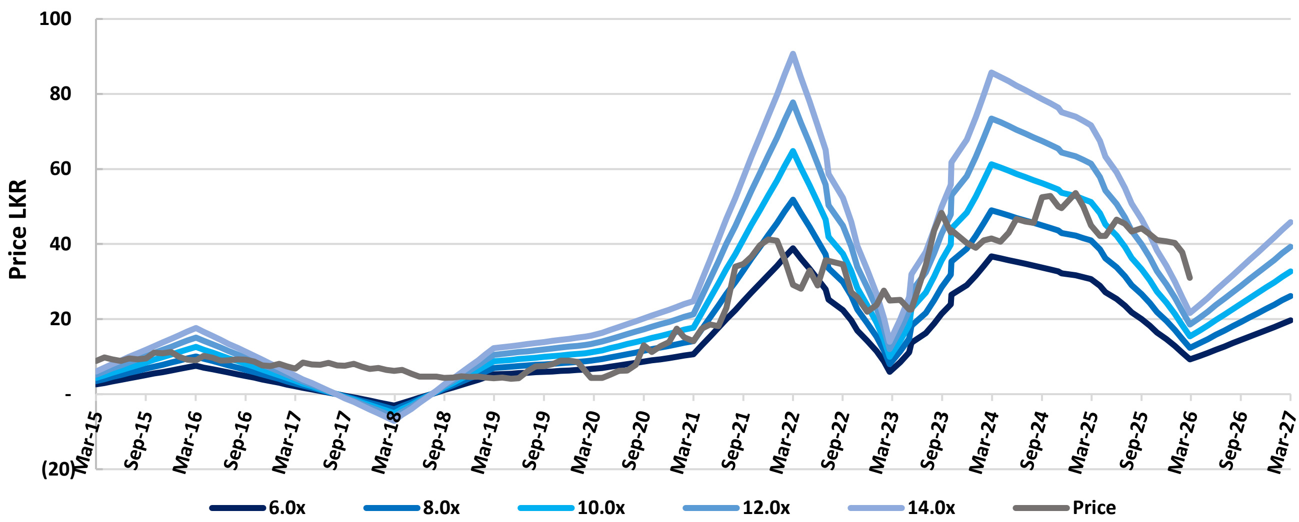
COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
β	1.1	1.1
Ke = Rf + β(Rm-Rf)	19%	19%

PER Based Valuation

PER Based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	1,360	1,945
No. of Shares ('Mn)	415	415
EPS	3.3	4.7
Expected Average PER	10.0x	10.0x
Target Price	32.7	46.8

WACC	FY27E	FY28E
Ke	19%	19%
Kd	13%	13%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	16%	16%

PER Chart



Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%

Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn) As at 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Revenue from Contracts with Customers	60,949	50,253	44,129	38,265	42,417	48,347	52,737
Cost of Sales	(53,123)	(40,813)	(36,306)	(32,566)	(36,012)	(40,950)	(44,510)
Gross Profit	**7,826**	**9,440**	**7,824**	**5,699**	**6,405**	**7,397**	**8,227**
Other Operating Income	258	234	277	221	239	258	279
Administrative Expenses	(3,407)	(3,683)	(3,565)	(3,891)	(3,691)	(3,821)	(3,992)
Distribution Expenses	(463)	(188)	(288)	(245)	(339)	(387)	(527)
Other Expenses	(16)	(22)	(9)	-	-	-	-
EBIT	**4,199**	**5,780**	**4,238**	**1,784**	**2,613**	**3,448**	**3,986**
Net Financing Income/(Expense)	(1,133)	(1,979)	(1,121)	(739)	(671)	(669)	(667)
Profit Before Tax	**3,066**	**3,801**	**3,116**	**1,045**	**1,943**	**2,779**	**3,319**
Tax	(2,652)	(1,257)	(990)	(403)	(583)	(834)	(996)
Profit After Tax	**414**	**2,544**	**2,126**	**642**	**1,360**	**1,945**	**2,323**
Adjusted EPS	1.0	6.1	5.1	1.5	3.3	4.7	5.6

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
ASSETS							
Property, Plant and Equipment	14,979	13,584	13,954	14,708	15,725	16,393	17,000
Goodwill	3,502	3,188	3,138	3,326	3,326	3,326	3,326
Inventories	12,315	9,286	9,314	8,411	8,031	9,132	9,926
Trade Receivables	6,048	4,869	5,078	6,775	3,818	3,868	4,219
Other Assets	1,523	1,201	999	1,031	1,042	1,035	1,029
Cash and Cash Equivalents	1,530	3,372	3,158	2,034	1,226	1,804	2,619
Total Assets	**39,897**	**35,500**	**35,694**	**36,353**	**33,167**	**35,558**	**38,119**
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Revaluation Reserve	173	157	281	298	298	298	298
Retained Earnings	2,089	3,549	4,913	5,306	6,258	7,619	9,246
Exchange Fluctuation Reserve	5,262	4,343	4,183	4,858	4,858	4,858	4,858
Total Equity	**9,492**	**10,018**	**11,346**	**12,430**	**13,382**	**14,744**	**16,370**
Liabilities							
Interest Bearing Loans and Borrowings	13,286	11,095	11,207	10,362	7,505	7,487	7,469
Retirement benefit obligations	1,017	1,180	1,304	1,419	1,419	1,419	1,419
Trade and Other Payables	9,146	7,721	7,167	8,474	7,346	8,395	9,347
Bank Overdraft	1,116	617	626	773	773	773	773
Other Financial Liabilities	5,840	4,869	4,045	2,741	2,741	2,741	2,741
Total Equity and Liabilities	**39,897**	**35,500**	**35,694**	**36,353**	**33,167**	**35,558**	**38,119**
Adjusted NAVPS	22.8	24.1	27.3	29.9	32.2	35.5	39.4

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